

A scenic landscape photograph of Mount Rainier in Washington state. The mountain is covered in snow and is illuminated by a warm, golden light, likely from a low sun during sunrise or sunset. The sky is filled with soft, orange and yellow clouds. In the foreground, there is a body of water, and in the middle ground, a town or city is visible, with buildings and trees silhouetted against the mountain.

One Washington Budget, Procurement and Financing Strategy

Table of Contents

1.0	Deliverable Overview	3
1.1	Purpose	3
1.2	Key Question	3
1.3	Key Considerations.....	3
2.0	Executive Summary	4
3.0	Budgeting	8
4.0	Financing Strategy	17
5.0	Procurement Strategy	21
A.	Appendix A: One Washington Scenarios	25
B.	Appendix B: Business Processes In-Scope for One Washington	26
C.	Appendix C: Description of Business Process Redesign Rounds	27
D.	Appendix D: Pro Forma Cash Flow	30

1.0 Deliverable Overview

1.1 Purpose

The Budget, Procurement and Financing Strategy deliverable builds upon and is interdependent with all the other deliverables in the One Washington engagement. This deliverable describes options and recommendations for developing the budget for the One Washington Project, financing the budget, and procuring the components that will be needed to complete the One Washington project.

1.2 Key Question

The Budget, Procurement and Financing Strategy deliverable seeks to answer the following questions:

How should the One Washington budget be constructed? How should that budget be financed?

How should the procurements be planned for the One Washington project?

1.3 Key Considerations

The development of this deliverable has taken into consideration the following:

- In the interest of clarity, we have organized the material into separate sections for budgeting, financing, and procurement. However, these three business activities have several elements which, by their nature, are inherently interrelated. We have coordinated these elements, by quarter and by fiscal year, so that the budgeting plan is synchronized with the financing strategy and with the procurement strategy.
- We have tailored the budget plan, procurement strategy, and financing strategy to the unique characteristics of the three One Washington scenarios (please see Appendix A for a complete description of the three scenarios). Some aspects of the Budget, Procurement and Financing Strategy are the same in each scenario; many aspects are different. Where possible, we strive for consistency and where necessary we strive to make the differences self-evident. Since each of the scenarios has its own budget-procurement-financing package that is complete and comprehensive for that scenario, the result is essentially three budget-procurement-financing packages.
- To construct this deliverable, we built upon the decisions made by the State of Washington during project discussions, draw upon industry leading practices, and apply our professional judgment.
- The deliverables referenced throughout this document refer to project deliverables submitted to the State as a part of the One Washington ERP Assessment engagement.
- The Budget, Procurement and Financing Strategy deliverable meets the requirement defined in Contract K2636, Amendment 1 in the Compensation Section, as well as in the Statement of Work, Section 5.1, related to Phase 2, Deliverable #5.

2.0 Executive Summary

The Budget, Procurement and Financing Strategy deliverable has been developed on a Total Cost of Ownership (TCO) basis to account for the entire lifecycle in the One Washington business case. Each of the three scenarios in this analysis include the following stages which encompass the project lifecycle, and are described in this summary:

1. **Pre-Implementation Stage:** These activities are essential to develop detailed specifications and requirements and conduct the Request for Proposal (RFP) processes. This stage also includes activities for targeted business process redesign (BPR) for cross-process initiatives (referred to as BPR Round 1a).
2. **Implementation Stage:** These activities create new systems and replace the State's Agency Financial Reporting System (AFRS). This stage also includes innovation of select business processes (referred to as BPR Round 1b). These BPR activities drive hard dollar and mission benefits, which are described in the One Washington Business Case, and provide the foundation for implementation of the new system.
3. **Post-Implementation Stage:** These activities maintain and operate the new systems.

Scenario 1: Managed Services ERP

Scenario 1 includes a single, integrated system for all in-scope finance and procurement functions, owned by the State and managed by a third party.

The Total Cost of Ownership of Scenario 1 over the 49 fiscal quarters from FY 2016 to FY 2027 of the business case is \$242,742,966. This figure includes all cost elements, i.e. State employees, professional services, contingency, software, hardware (included as a budget line item but paid to the vendor), and facilities for the implementation team. It does not include interest expense that would arise if the State decides to finance some of the budget with external borrowing. This figure assumes the State provides certain resources, such as end user workstations, network connectivity, and various software assets related to interfaces, document management, identity management, and learning management. This figure has not been adjusted for inflation.

Of this total, approximately \$60.6 Million is recommended for funding by a set-aside from the Treasury Service Fund (TSF). \$81.6 Million is eligible and appropriate to be financed with tax-exempt external borrowing, namely Certificates of Participation (CoPs). If the State selects this option, the payment of the principal and interest on the CoPs could come from the TSF, regular appropriations, or agency chargebacks. Approximately \$100.5 Million is eligible and appropriate to be financed with a combination of vendor paid user fees and state agency chargebacks. Please note that agency chargebacks include central service costs which may be applied to the agency's Federal awards based on the approved Statewide Indirect Cost Allocation Plan (SWICAP), thereby providing Federal Financial Participation (FFP) to help finance the cost of the One Washington project.

To accomplish Scenario 1, the State would conduct seven RFPs for:

1. Professional services for planning and procurement assistance and project Independent Verification and Validation
2. Professional services for project oversight
3. Professional legal services for procurement assistance
4. Professional services for upfront, high-leverage BPR of key enterprise-wide businesses processes that are central to realizing the benefits of One Washington

5. Professional services for subsequent high-leverage, BPR to innovate key business processes that are also central to realizing the benefits of One Washington
6. Enterprise Resource Planning (ERP) software
7. Professional services for ERP implementation with vendor managed services

Scenario 2: Best-of-Breed eProcurement with Managed Services ERP Financials

In Scenario 2, procurement business functions are provided by a Best-of-Breed eProcurement system, with the remainder of in-scope Finance business functions being provided by a Managed Services ERP. These systems would be owned by the State and managed by a third party.

The Total Cost of Ownership for Scenario 2 over the 49 fiscal quarters from FY 2016 to FY 2027 of the business case is \$284,372,938. This figure includes all cost elements, i.e. State employees, professional services, contingency, software, hardware (included as a budget line item but paid to the vendor), and facilities for the implementation team. It does not include interest expense if the State decides to finance some of the budget with external borrowing. This figure assumes the State provides certain resources, such as end user workstations, network connectivity, and various software assets related to interfaces, document management, identity management, and learning management. This figure has not been adjusted for inflation.

Scenario 2 costs approximately \$41.6 Million more than Scenario 1. The major difference between Scenario 1 and Scenario 2 is that there are two planning and procurement efforts – one for eProcurement and another for the Managed Services ERP Financials system, two implementation projects, and two post-implementation support requirements.

Of the total figure for Scenario 2, approximately \$68.2 Million is recommended for funding by a set-aside from the TSF. \$104.9 Million is eligible and appropriate to be financed with tax-exempt external borrowing, namely CoPs. If the State selects this option, the payment of the principal and interest on the CoPs could come from the TSF, regular appropriations, or agency chargebacks. Approximately \$111.3 Million is eligible and appropriate to be financed with a combination of vendor paid user fees and state agency chargebacks. Please note that agency chargebacks include central service costs which may be applied to the agency's Federal awards based on the approved Statewide Indirect Cost Allocation Plan (SWICAP), thereby providing FFP to help finance the cost of the One Washington project.

To accomplish Scenario 2, the State would conduct eight procurements for:

1. Professional services for planning and procurement assistance and project Independent Verification and Validation
2. Professional services for project oversight
3. Professional legal services for procurement assistance
4. Professional services for upfront, high-leverage BPR of key enterprise-wide businesses processes that are central to realizing the benefits of One Washington
5. Professional services for subsequent high-leverage, BPR to innovate key business processes that are also central to realizing the benefits of One Washington
6. eProcurement software with implementation services and vendor managed services
7. Enterprise Resource Planning (ERP) software
8. Professional services for ERP implementation with vendor managed services

Scenario 3: Best-of-Breed eProcurement with Software-as-a-Service (SaaS) ERP Financials

In Scenario 3, procurement business functions are provided by a Best-of-Breed eProcurement system, with the remainder of in-scope Finance business functions being provided by an ERP Software-as-a-Service

provider. These systems would be owned and managed by a third party with service provided to the State under a long-term contract.

The Total Cost of Ownership for Scenario 3 over the 49 fiscal quarters FY 2016 to FY 2027 of the business case is estimated to be \$267,036,350. \$26.4 million of this amount could be financed with CoPs, representing portions of the budget related to the eProcurement. For the ERP SaaS portion, none could be financed since the State would be leasing rather than owning the system. Hence, all of the SaaS ERP would need to be financed via the TSF, vendor paid user fees, agency chargebacks (which include FFP), or regular appropriations. (Please note: If the eProcurement component is acquired in a SaaS solution, it will likewise not be eligible for tax-exempt CoP financing.)

To accomplish Scenario 3, the State would conduct eight procurements for:

1. Professional services for planning and procurement assistance and project Independent Verification and Validation
2. Professional services for project oversight
3. Professional legal services for procurement assistance
4. Professional services for upfront, high-leverage BPR of key enterprise-wide businesses processes that are central to realizing the benefits of One Washington
5. Professional services for subsequent high-leverage, BPR to innovate key business processes that are also central to realizing the benefits of One Washington
6. eProcurement software with implementation services and vendor managed services
7. A Software-as-a-Service Financials solution, including the vendor managing the solution
8. Professional services for ERP implementation

The system created in Scenarios 1 and 2 and the eProcurement portion of Scenario 3 is a capital asset, as defined by the State Administrative & Accounting Manual (SAAM) manual. Under this definition, the One Washington project and its associated costs should be accounted for and controlled as a capital asset. For that reason, it should be budgeted and accounted for like any capital asset in the State of Washington, as set forth in Chapter 30.20.10 (b) of the SAAM manual. The SaaS ERP in Scenario 3 is not a capital asset, and it is funded as an operating expense. Thus, most of Scenario 3 should be budgeted and accounted for like other multi-year programs in the operating budget.

Account Recommendation

In terms of accounting for the inflows, outflows, and exchange of funds between agencies, we recommend a new fund called the Enterprise Core Financial Revolving Fund. This would be the single fund to which all sources of financing would be deposited and all uses of funds would be disbursed, providing a single and complete record of all transactions for the One Washington project. This will facilitate aggregated reporting of the project TCO.

Authorization Recommendation

We recommend one major authorization package (with itemized components) be made to the Governor and Legislature for the entire TCO budget of the One Washington project. This will improve transparency and assure that the Legislative and Executive branches have full visibility of the range, timespan, and lifecycle of funding needs to support this project, and its expected return on investment over a number of biennial budgets. The authorization package should be comprised of three parts:

1. Language authorizing the Office of Financial Management (OFM) to take actions necessary to implement the project, including authorization for tax-exempt borrowing as appropriate and utilization of the proceeds in conformance with the cash requirements of the project.

2. Any statute changes for the Department of Enterprise Services (DES) and OFM required to account for, finance, or effectively implement the project.
3. A set-aside from the Treasury Service Fund in the current (and succeeding) budgets to support the types of activities targeted for this form of financing, e.g. initial planning, procurement, BPR, and State employee labor for the system implementation activities. This last part can be accomplished with intent language for future biennia (since future legislatures cannot be bound).

3.0 Budgeting

It is a leading practice to account for all costs of the multi-year One Washington project in a unified and comprehensive budget. This approach provides visibility to the Total Cost of Ownership (TCO) which is important for several reasons: to enable the Governor and Legislature to understand and authorize funding, for management to be able to manage and control actual expenditures against the budget, and for citizens to be able to appreciate the magnitude of the investment as compared to the intended and promised benefits.

The One Washington project will replace over 100 computer systems in the State that have been established over the past three decades. It will be a concrete, long-lived business transformation and information technology initiative for the state. The time it will take to plan, configure, deploy and integrate the system comprehensively across all Washington agencies will span multiple biennial budgets. If Scenario 1 or Scenario 2 are selected, the approach to budgeting, accounting and financing this project should be similar to a long-term capital asset, such as a building or roadway - with clear policies on capitalization of design and development costs, amortization of capital costs over time, allocation of operating costs to be paid by users across the enterprise, and specific reporting intervals to the Legislative and Executive branches. If Scenario 3 is selected, the approach for the SaaS ERP portion to budgeting, accounting, and financing the project should be similar to launching a new, multi-year program funded by the operating budget - with clear policies on the long-term nature and commitment of funding over multiple biennial budgets. In all three scenarios, it is important to have a Total Cost of Ownership (TCO) budget and multiple reporting intervals to provide the State with the ability to modify the TCO budget at these check-in points.

A foundational principle is that the budget should be constructed to provide the basis for a financing strategy that can spread the costs appropriately over the widest number of users and distribute operating costs on an ongoing basis. Costs should be clearly structured in the budget pursuant to the following guiding principles:

- Costs should be organized in the budget so they can subsequently be allocated across the broadest possible group of user agencies, including those that are not funded by the general fund.
- One of the best practices in public sector finance is to correlate the entity receiving the benefit and the entity providing the funding. As such, costs should be organized in the budget to be connected to their eventual source of financing, i.e. from State appropriations, set-aside from the Treasury Service Fund, proceeds from external borrowing (e.g., CoPs), and contributions from agency chargebacks (which includes Federal funds), user fees, and other financing sources.
- Costs in the budget related to debt service on external borrowing could be reduced with existing funding flows from the Treasury Service Fund. A new Enterprise Core Financial Revolving Fund should be used to manage the inflow and outflow of funds.
- Costs attributable to programs of Federal Financial Participation should be identifiable. Agency chargebacks include central service costs which may be applied to the agency's Federal awards based on the approved Statewide Indirect Cost Allocation Plan (SWICAP) so that Federal Highway Administration (FHWA) and Centers for Medicare & Medicaid Services (CMS) funding flows support the costs of the system in accordance with Federal overhead guidelines and directives.

Our recommendation regarding the budget is made in the context of the current Washington budget realities, with sluggish revenue growth and fierce competition for resources fueled by the recent court decision in the McCleary case that will require significant growth in the K-12 budget.

Prerequisites and Guiding Principles

This budget approach is based on several prerequisite decisions and guiding principles as described below.

- *Definition of functional scope:* The scope includes the business process areas agreed upon by the State and documented in the Business Process Assessment deliverable. Most financial and procurement business process areas are in scope and human capital management business processes are out of scope. Please see Appendix B for a complete list of business process areas in scope.
- *Definition of technical scope:* This is the translation of the business process areas into commercial-off-the-shelf (COTS) software modules and software customizations. Several COTS software products are readily available in the marketplace. Customizations are custom objects that are often referred to as RICEFW (which stands for reports, interfaces, data conversions, extensions, forms and workflows). This translation was completed by Accenture.
- *Determination of the business process redesign approach:* This includes Round 1a BPR (Cross-Process Initiatives), Round 1b BPR (Innovate Processes), and Round 2 BPR, agreed upon by the State in the Business Process Redesign deliverable. Please see Appendix C for a description of each round.
- *Determination of the systems to be replaced and interfaced:* This determination is based upon the legacy system replacement and integration plan agreed to by the State in the Current Financial System Assessment deliverable.
- *Determination of the readiness and change management approach:* This includes the overall change management approach and governance model agreed upon by the State in the Readiness Assessment and Change Management Approach deliverables.
- *Determination of the deployment model:* This is reflected in the definition of the three scenarios agreed upon by the State and documented in project management documents. The budget for Scenario 1 includes a managed services deployment model that shares certain roles and responsibilities between the State and the vendor. The budget for Scenario 2 includes a managed services deployment model for the eProcurement solution and the ERP Financial solution. The narrative for Scenario 3 includes a managed services deployment model for the eProcurement solution and a Software-as-a-Service (SaaS) deployment model for the Financial solution.
- *Determination of the implementation approach:* This is the timing and phasing as agreed upon by the State in the Phasing and Timelines deliverable. Scenario 1 includes five phases organized with five functional releases and three agency waves. Scenario 2 has seven phases with Phase 1 and 2 related to the eProcurement solution and Phases 3-7 related to the Financial solution. The implementation approach for Scenario 3 would be similar to Scenario 2, with differences described in the Phasing and Timelines deliverable.
- *Determination of the project staffing approach:* The budget assumes an integrated team approach, whereby a combination of State and vendor resources work together in an agreed upon division of labor and specialization. This is the staffing plan agreed upon by the State and documented in the Staffing Strategy deliverable.

- *Determination of the post-implementation support model:* This component is included in the three scenarios, described above in the deployment model, and was developed in collaboration with the Department of Enterprise Services (DES).

Building the budget document

We recommend the budget document be structured in a spreadsheet format. The columns should represent the quarters of the fiscal years. To provide comparability, we have synchronized all scenarios to include 49 fiscal quarters, i.e. 12 years and 1 quarter.

Major activities should be organized into cost categories and correlate to the staffing, phasing, and timing plans. We recommend these activities be organized into three groupings which we call stages.

1. Stage 1 includes the pre-implementation activities that comprise the upfront planning, procurement and Round 1a BPR work. Planning includes developing detailed requirements and specifications. Procurement includes engaging a third party advisor and then working with that advisor to create RFPs, receive and evaluate responses, and negotiate contracts. Round 1a BPR includes the five cross-process initiatives agreed to by the State in the Business Process Redesign Approach deliverable. This is typically the stage with the smallest budget requirement.
2. Stage 2 includes the activities that comprise the implementation. For Scenario 1, this is the body of work in the five phases. In Scenarios 2 and 3, this is the body of work in the seven phases. We recommend including in this stage the additional BPR projects that were deferred from stage one, which are referred to as Round 1b BPR, or Innovate Processes. An example of a business process to be included in Round 1b BPR is strategic sourcing. The BPR activities are described in Appendix C. This is typically the stage with the largest budget requirement.
3. Stage 3 includes the post-implementation management and operation of the system. This includes activities to keep the business and technical aspects working to the agreed-upon service levels for not less than five years (or to the end of the 49 quarters of the business case). It also includes the work related to software upgrades and releases and technology refreshments.

We recommend the following cost categories and cost elements:

- *State employee salaries, benefits, and expenses:* The cost elements are individual employees. These expenses are manifested through payroll. The budget assumes the fully loaded cost for salaries and benefits. The budget also includes a high-level estimate for the time it will require agency employees to complete agency-related interface work. We recommend this budget only be released pursuant to specific approval of the governance body.
- *Professional services (various types of consultants and service providers for different reasons):* The cost elements are fees paid to vendors, usually itemized for time and materials or fixed price. These expenses are manifested through accounts payable.
- *Contingency:* This is a factor applied to the labor effort (i.e., State employees and professional services) to reserve a budget for additional but currently not planned or budgeted work that often arises in projects similar to One Washington. Even the best planned projects encounter factors that cannot be anticipated, especially in a 12-year planning timeframe. Leading practices indicate using different contingency factors based on the stage of the work and degree of risk. For example, the contingency factor appropriate for the implementation stage would be higher than the factor for the managed services stage. Again referring to leading practices, we recommend the contingency budget only be released pursuant to specific approval of the governance body.
- *Software:* For ERP application software in Scenarios 1 and 2 and the eProcurement application software in Scenarios 2 and 3, the cost elements are the ERP and eProcurement initial license cost

and subsequent maintenance. For other software related to the ERP (e.g. project management tools, application testing tools, application job scheduling tools, etc.), this is the cost of license and maintenance. These expenses are manifested through accounts payable. Please note we have assumed in the budget that the State will provide resources for end user workstations, a network to which the ERP and eProcurement managed service and/or ERP SaaS solutions could connect, the telecommunications cost to connect the service provider to the state network, an enterprise service bus the ERP could leverage for interfaces, extract/transform/load (ETL) software for connecting to an enterprise data warehouse, a service desk/customer relationship management (CRM)-type tool, a document management solution to import/export documents to the ERP, a learning management solution to schedule and administer training, external state monitoring tools, data masking tools for non-production environments, an identity management solution with capability for single sign-on if desired, and Secure Sockets Layer (SSL) certificates and security software to avoid intrusions. If the State does not have these resources, or have them in sufficient capacity, additional budget would need to be added.

- *Hardware:* In all scenarios, these cost elements would be reflected as components of the vendor fees for managed services or SaaS. Line items depicted in the budget would eventually be included in the service provider contract for hardware acquisition and maintenance.
- *Facilities:* This cost element is space rental and furnishings and equipment for the project team. It could be manifested as a chargeback or through accounts payable to the leased location.
- *Other:* This cost category exists to hold any costs not more conveniently attributed to one of the other cost categories, for example interest expense for borrowing. It is a leading practice to have few cost elements in this category. Please note that interest expense has not been included in the One Washington business case analysis for each scenario.

Budget Summaries

The summary budget recommended for Scenario 1 is below.

Activity	Planning and Procurement	Business Process Reengineering	Implementation	Post-Implementation	Sub-Total
State labor	\$3,950,000	\$4,095,000	\$18,491,750	\$10,972,500	\$37,509,250
Professional Services	\$3,256,000	\$12,150,000	\$57,771,203	\$57,032,000	\$130,209,203
Contingency	\$620,600	\$1,624,500	\$18,965,738	\$10,775,675	\$31,966,513
Agency Pool of Hours	-	-	\$3,500,000	-	\$3,500,000
ERP Software	-	-	\$18,210,000	-	\$18,210,000
Hardware paid to Vendor	-	-	-	\$4,625,000	\$4,625,000
Software paid to Vendor	-	-	-	\$1,350,000	\$1,350,000

Activity	Planning and Procurement	Business Process Reengineering	Implementation	Post-Implementation	Sub-Total
Facilities	\$378,000	\$678,000	\$7,231,000	\$7,066,000	\$15,353,000
Other	-	-	-	-	-
Total	\$8,204,600	\$18,547,500	\$124,169,691	\$91,821,175	\$242,742,966

The summary budget recommended for Scenario 2 is below.

Activity	Planning and Procurement	Business Process Reengineering	Implementation	Post-Implementation	Sub-Total
State labor	\$4,635,000	\$4,095,000	\$21,493,750	\$10,830,000	\$41,053,750
Professional Services	\$4,154,000	\$12,150,000	\$70,998,400	\$60,664,000	\$147,966,400
Contingency	\$753,900	\$1,624,500	\$25,758,288	\$11,175,100	\$39,311,788
Agency Pool of Hours	-	-	\$4,125,000	-	\$4,125,000
ERP Software	-	-	\$26,040,000	-	\$26,040,000
Hardware paid to Vendor	-	-	-	\$6,550,000	\$6,550,000
Software paid to Vendor	-	-	-	\$2,800,000	\$2,800,000
Facilities	\$423,000	\$678,000	\$8,177,000	\$7,248,000	\$16,526,000
Other	-	-	-	-	-
Total	\$9,965,900	\$18,547,500	\$156,592,438	\$99,267,100	\$284,372,938

The summary budget estimated for Scenario 3 is below.

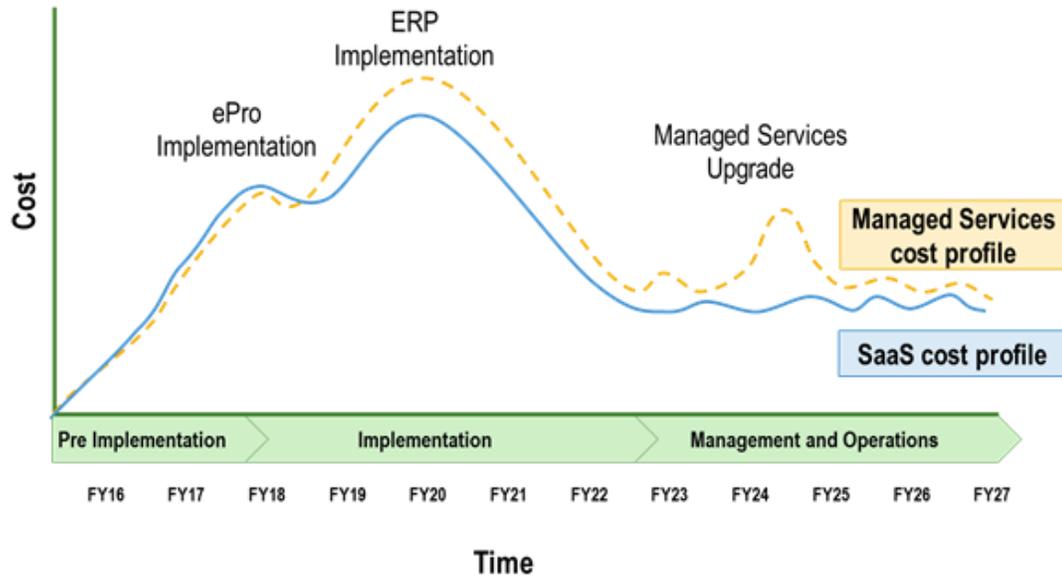
Activity	Planning and Procurement	Business Process Reengineering	Implementation	Post-Implementation	Sub-Total
State labor	\$4,068,388	\$4,095,000	\$21,958,011	\$9,120,000	\$39,241,399
Professional Services	\$4,994,912	\$12,150,000	\$73,277,887	\$24,059,000	\$114,481,799
Contingency	\$1,069,345	\$1,624,500	\$39,651,439	\$6,876,600	\$49,221,884
Agency Pool of Hours	-	-	\$4,537,500	-	\$4,537,500
ERP Software	-	-	\$9,150,000	\$34,491,250	\$43,641,250
Hardware paid to Vendor	-	-	-	\$1,975,000	\$1,975,000
Software paid to Vendor	-	-	-	\$1,500,000	\$1,500,000
Facilities	\$423,000	\$678,000	\$8,177,000	\$3,159,518	\$12,437,518
Other	-	-	-	-	-
Total	\$10,555,645	\$18,547,500	\$156,751,837	\$81,181,368	\$267,036,350

We estimated a summary budget for Scenario 3 and compared it to Scenario 2. This is a top-down estimate, based upon the differences that the State can expect between Scenarios 2 and 3.

From a budgeting perspective, the key differences in a SaaS deployment model such as Scenario 3 are described as follows.

- Financial Basis:* Scenario 2 employs a capital expense perspective (often referred to as CAPEX) while Scenario 3 employs mostly an operating expense perspective (often referred to as OPEX). With Scenario 2, the State is acquiring a capital asset, with the appropriate budgeting, accounting and financing for a capital asset. As an analogy, this is like buying a car; you can finance it and once you own it you can customize it, change it, and depreciate it. With the SaaS ERP portion of Scenario 3, this is like leasing a car whereby you have rights of usage during the lease period but not ownership and you pay for it with operating funds. The operative principle in Scenario 2 is the State pays for a perpetual license of the ERP and eProcurement software and in Scenario 3 the State pays a perpetual license for eProcurement and for the SaaS ERP pays a subscription fee, usually based on factors such as the number of users.
- Impact on TCO and Cash Flow:* While the body of evidence is not yet authoritative, studies suggest the TCO for SaaS compared to a Managed Service eProcurement and ERP Financial solution such as Scenario 2 is potentially lower. Another difference, as indicated below, is that the cash flow over the

lifecycle is different. The implementation timeframe tends to be shorter so the implementation cost tends to be less, and the need for an upgrade is eliminated. In addition, the post-implementation cost tends to be slightly lower. (When making the comparison, please note in Scenario 2 the cost of software is displayed in the implementation stage and in Scenario 3 in the post-implementation stage.)



- *Impact on Pre-Implementation:* There is a slight difference in the degree and cost for the planning and procurement in Scenario 3 when compared to Scenarios 1 and 2. We believe it is in the State’s best interest to develop specifications and requirements for both “traditional” ERP and SaaS ERP, and solicit responses for both in the RFP process. This approach would give the State the ability to compare and contrast the vendor responses by leveraging the competitive marketplace. This approach keeps all options open and enables the State to make a fully informed selection. There is no impact on the budget for BPR.
- *Impact on Implementation:* There are several considerations, some of which add cost and others reduce cost compared to Scenario 2. SaaS requires strong project management and governance as the State will need to conform its business processes to the configurations offered by the SaaS vendor. Accordingly, we have calculated a slight increase in cost in this portion of the budget estimate.

We have also calculated a slight increase in the functional portion of the budget estimate. Again, this relates to the need to do an extensive analysis of Washington business requirements, compare those requirements to the configuration options offered by the SaaS provider, and develop acceptable business process changes and/or other workarounds for requirements that cannot be accommodated via configuration. Included in this adjustment is the high-level estimate amount for the time it will require agency employees to complete agency-related interfaces.

Another area in the implementation budget estimate that has a moderate increase in cost is change management. Since customization is not possible, the degree of change to which Washington must adapt increases through the requirement to change business processes, past practices, and even laws. Partially offsetting this cost increase is the reduced cost of training, as SaaS solutions are generally more intuitive and easier for the end user to learn.

For the technical portion of the implementation budget estimate, we have calculated a moderate cost decrease. For example, technical work to code custom objects and establish multiple computing environments is essentially eliminated. Partially offsetting this cost decrease are cost and effort increases related to testing, data conversion, and the importance of an integration plan using the State's enterprise service bus to leverage other systems in order to address requirements not served by the SaaS. Another factor reducing cost is that SaaS typically employs an agile software development lifecycle, with the ability to accelerate the phasing, hence saving time and cost.

The biggest factor increasing cost is the provision for contingency. Because SaaS implementations in the state government market are not as mature and proven, we have included a major cost increase. As a related factor, because the ecosystem for SaaS solutions is not commoditized, the cost per hour is generally higher when accessing outside resources. A technique to partially offset that point is to utilize outside resources from offshore locations, a technique which is popular in SaaS projects. The biggest cost reducing factor is the elimination of the up-front software licensing fee and related maintenance.

- *Impact on Post-Implementation:* Again there are several considerations, some of which add cost and others reduce cost. The need for State employees to provide system support is retained and increased, for the Level 1 Service Desk, maintaining internal interfaces, and developing new interfaces or other workarounds if new requirements (such as law changes) arise and cannot be accomplished with configuration of the SaaS ERP. Other factors which add cost include the ongoing subscription fee, which effectively eliminates the vendor cost associated with managed services. In addition, since SaaS ERP has a faster implementation date than Scenario 2, an additional year of support has been added to complete the 49 quarters of the business case.

Factors which reduce cost include the elimination of a software upgrade. SaaS vendors typically have 2-3 releases per year which must be evaluated and can be configured by the State at no additional charge. Also, the need for outside professional services is significantly reduced, but not eliminated. We have included a budget for additional professional services that might be needed to develop interfaces or other workarounds if new requirements (such as law changes) arise. It is possible the need for this budget does not arise, in which case it could be eliminated; but it is also possible the need could double or even triple. We believe it is prudent to include this factor so we have extrapolated the amount from Scenario 2 for a similar purpose and included it in Scenario 3.

Please refer to the Phasing and Timelines deliverable for a description of the functional differences in Scenario 3 and Business Case deliverable for additional assumptions related to the SaaS ERP scenario.

Managing the Budget

Scenarios 1 and 2 and the eProcurement portion of Scenario 3 of the One Washington project are capital assets, as defined by the State Administrative & Accounting Manual (SAAM) manual. Under this definition, the One Washington project and costs to develop it should be accounted for and controlled as a capital asset. For that reason, it should be budgeted and accounted for like any capital asset in the State of Washington, as set forth in Chapter 30.20.10 (b) of the SAAM manual. The SaaS ERP portion of Scenario 3 should be budgeted and accounted for like other multi-year programs in the operating budget.

In terms of accounting for the inflows, outflows, and exchange of funds between agencies, we recommend a new Enterprise Core Financial Revolving Fund. This would be the single fund to which all sources of financing would be deposited, all uses of funds would be disbursed, and would provide a single and complete record of all transactions for the One Washington project. This will facilitate aggregated reporting of the project TCO.

Requesting the budget

We recommend one major authorization package (with itemized components) be made to the Governor and Legislature for the entire TCO budget of the One Washington Project. This will improve transparency and ensure that the Legislative and Executive branches have full visibility of the range, timespan, and lifecycle of funding needs to support this project, and its expected return on investment over a number of biennial budgets. The authorization package should be comprised of three parts:

1. Language authorizing OFM to take actions necessary to implement the project, including authorization for tax-exempt borrowing as appropriate and utilization of the proceeds in conformance with the cash requirements of the project.
2. Any statute changes required to account for, finance, or effectively implement the project.
3. A set-aside of Treasury Service Fund in the current (and succeeding) budgets to support the types of activities targeted for this form of financing, e.g. initial planning, procurement, BPR, and State employee labor for the system implementation activities. This last part can be accomplished with intent language for future biennia (since future legislatures cannot be bound).

4.0 Financing Strategy

States typically do not have the resources in the operating budget to set aside the large investment required to plan, implement and operate a system of the size and scale of One Washington. For this reason, States use financing mechanisms to reduce the impact on the annual operating budget. Also, financing mechanisms provide more appropriate matching of costs and benefits for a capital asset. Specifically, many States use proceeds from borrowing to provide the capital required to fund the implementation stage. Once the system goes to the post-implementation stage, states typically finance the ongoing operational costs with regular appropriations or agency chargebacks.

Because tax-exempt external borrowing is typical and attractive to States as a financing mechanism, we created the table below to describe the types of costs relevant to One Washington that could be financed. This table pertains to Scenarios 1 and 2 and the eProcurement portion of Scenario 3. It is important to note that the costs of the SaaS ERP in Scenario 3, are not eligible for tax-exempt external borrowing and will need to be entirely supported from the State's operating budget.

Stage	Cost Category	Eligible for Tax-Exempt Borrowing?
Planning, Procurement and BPR	State employees	Yes, but not recommended
	Professional services	Yes, but not recommended
Implementation	State employees	Yes, but not recommended, and No for SaaS
	Professional services and related contingency	Yes, and No for SaaS
	Software licenses	Yes, and No for SaaS
	Software maintenance	No
	Hardware (paid to vendor)	Yes, but No for SaaS
	Hardware maintenance	No
	Facilities	Yes (only if owned by State, newly built and meets "private use") but not recommended
Post Implementation	State employees	No
	Professional services	No
	Software maintenance	No
	Hardware maintenance	No

As reflected in the table above, some limited expenses related to planning, procurement, and BPR are theoretically eligible for financing from the proceeds of borrowing, but we do not recommend it, as this adds interest costs and introduces timing issues. It is unlikely that agencies will find it acceptable to charge back such costs to them prior to go-live to help repay this borrowing because doing so will reduce agency operating funds available to fund mission-critical operations. Additionally, Federal rules do not allow agencies to incorporate these costs prior to go-live in their Federally approved SWICAP.

The expenses related to State employees contributing to the implementation of the system are theoretically eligible for financing from the proceeds of borrowing, but Washington does not normally use external financing for such purpose, so again we do not recommend it.

For these reasons, we recommend that the planning/procurement/BPR costs be supported by the Treasury Service Fund. This fund is a particularly appropriate choice because its earnings are derived from the cash transactions of all agencies in the state, thus it will result in spreading the costs of the project across the entire enterprise. We propose this as a direct expense out of TSF without the expectation of subsequent reimbursement (from State agencies or Federal funds). It is estimated that the Treasury Service Fund yields about \$20 Million biennially in excess funds, which have in prior years been transferred to the General Fund. As indicated in the budget summary charts and the pro forma cash flow in Appendix D, this amount should be enough to fund the upfront planning, procurement, and BPR-related expenditures. If the TSF is insufficient, a regular appropriation is recommended.

For the eligible costs in the implementation stage, the One Washington Executive Sponsors have determined that such costs should be financed through tax-exempt external borrowing, specifically Certificates of Participation (CoPs). The proceeds derived from the CoPs would be used to fund the expenses for professional services (including contingency), software licenses, and hardware acquisition (paid to the vendor), in the implementation stage. The repayment of the CoPs would be scheduled to begin after the system implementation. Hence, the State should consider agency chargebacks, SWICAP recovery from the Federal government, continued use of the Treasury Service Fund, and, if needed, a regular State appropriation to repay the principal and interest. It is premature to make the decision on how to structure the CoP repayment obligation until the State makes further decisions about the scenarios and the related financing strategy. Accordingly, we have not included the interest expense associated with CoPs financing in the budget. For costs in the implementation stage not eligible for funding out of CoPs, we recommend continued use of the TSF and, if needed, a regular State appropriation.

Costs in the post-implementation stage for all scenarios can be financed by a combination of State agency chargebacks (including SWICAP recovery from the Federal government), vendor user fees and continued draws from the TSF. The agency chargeback component should be determined using the current chargeback policies and procedure. The degree of Federal funding will be the amount approved in the SWICAP which determines the proportion of chargebacks that can be applied to Federal funding. A second source of funding is vendor fees for using the new eProcurement solution. The third funding option is continued draws from the TSF. Should this combination be insufficient, a regular State appropriation would be recommended. This financing strategy for post-implementation aligns with leading practices, as the correlation is made between the provision of the service (i.e. the new One Washington system) and the obligation to pay for that service.

Our recommended financing strategy for each Scenario is presented on the next page. Please refer to the Appendix D for a pro forma cash flow of funds to be provided by the TSF by fiscal year.

The recommended financing strategy for Scenario 1 is outlined in the table below.

Scenario 1	Cost Category	Recommended Financing Strategy
Planning, Procurement and BPR	State employees	TSF
	Professional services	TSF
Implementation	State employees	TSF
	Professional services	CoPs (with repayment obligation not yet decided)
	Software licenses	CoPs (with repayment obligation not yet decided)
	Software maintenance	TSF
	Hardware	CoPs (with repayment obligation not yet decided)
	Hardware maintenance	TSF
Post-Implementation	Facilities	TSF
	State employees	User fees, agency chargebacks (includes FFP), and TSF if needed
	Professional services	User fees, agency chargebacks (includes FFP), and TSF if needed
	Software maintenance	User fees, agency chargebacks (includes FFP), and TSF if needed
	Hardware maintenance	User fees, agency chargebacks (includes FFP), and TSF if needed

The recommended financing strategy for Scenario 2 is identical to Scenario 1:

Scenario 2	Cost Category	Recommended Financing Strategy
Planning, Procurement and BPR	State employees	TSF
	Professional services	TSF
Implementation	State employees	TSF
	Professional services	CoPs (with repayment obligation not yet decided)
	Software licenses	CoPs (with repayment obligation not yet decided)
	Software maintenance	TSF
	Hardware	CoPs (with repayment obligation not yet decided)
	Hardware maintenance	TSF
Post Implementation	Facilities	TSF
	State employees	User fees, agency chargebacks (includes FFP), and TSF if needed
	Professional services	User fees, agency chargebacks (includes FFP), and TSF if needed
	Software maintenance	User fees, agency chargebacks (includes FFP), and TSF if needed
	Hardware maintenance	User fees, agency chargebacks (includes FFP), and TSF if needed

The recommended financing strategy for Scenario 3 is different than the other two scenarios due to the implementation of SaaS ERP.

Scenario 3	Cost Category	Recommended Financing Strategy
Planning, Procurement and BPR	State employees	TSF
	Professional services	TSF
Implementation	State employees	TSF
	Professional services	COPs for eProcurement and TSF for SaaS ERP
	Software licenses	COPs for eProcurement and TSF for SaaS ERP
	Software maintenance	TSF
	Hardware	COPs for eProcurement and TSF for SaaS ERP
	Hardware maintenance	TSF
	Facilities	TSF
Post Implementation	State employees	User fees, agency chargebacks (includes FFP), and TSF if needed
	Professional services	User fees, agency chargebacks (includes FFP), and TSF if needed
	Software maintenance	User fees, agency chargebacks (includes FFP), and TSF if needed
	Hardware maintenance	User fees, agency chargebacks (includes FFP), and TSF if needed

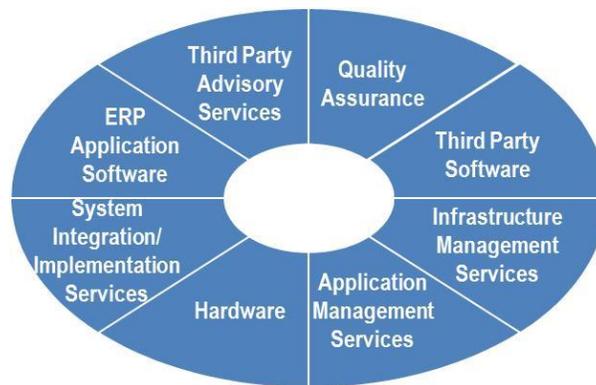
5.0 Procurement Strategy

We recommend the State consider the following leading practices when designing the procurement strategy for One Washington:

- Develop requirements and specifications oriented to the desired business outcomes. Frame the business problem and ask vendors to respond with business solutions. Traditional RFPs are characterized by thousands of detailed requirements. By their nature, this approach to procurement fosters a set of requirements, and thus proposals, that are grounded in the business practices of the past. In contrast, leading practice RFPs do not prescribe the specifications and solution in such detail. Rather these RFPs articulate business objectives and seek proposals that manifest leading practices and innovation.
- Conduct the procurement process with an open channel of communication. The best procurement outcomes are achieved when there is a lot of information exchange, meaningful and effective dialog, and sharing information in an iterative process. Examples of techniques in this approach include a Request for Information step, a Vendor Roundtable step, publication of a Draft RFP for reaction and feedback by the vendor community prior to finalizing the actual RFP, and emphasis on face-to-face rather than strictly written communication.
- Schedule time upfront to write a high-quality RFP. Investing this time will pay off with higher quality proposals. Stated another way, a poorly crafted RFP typically leads to lower quality proposals. Do not spend disproportionate amounts of time evaluating written proposals. Rather, expedite that step and spend more time in dialog, via oral presentations and/or demonstrations. Once the selection is made, negotiate quickly and decisively, and if agreement is not forthcoming, go to the next in-line vendor.

Determining the Sourcing Strategy

State ERP projects always involve the sourcing and procurement of eight elements. Often the sourcing/procurement decisions on these eight elements are combined as illustrated below.



For One Washington, the sourcing is likely to be a bit different from the graphic above, since additional BPR services might be included and specialized legal services are required. Deciding how these components will be sourced and procured -individually or in various bundles, from a vendor or provided by the State itself - is a strategic decision the State must make in the One Washington procurement strategy. Based on our experiences across multiple state ERP projects, we recommend a multiple RFP procurement strategy for Scenario 1.

- One Request for Proposals (RFP) for Third Party Advisory (TPA) Services potentially combined with Independent Verification and Validation (IV&V) services: This procurement provides the State with expert assistance to help define requirements, write the RFP, and assist in the evaluation and selection process. Because of the knowledge retained with continuity, it makes sense to also engage the same vendor to work with the State in an IV&V role during the implementation stage. Because of the potential for a conflict of interest, the vendor selected for this role should be precluded from bidding on the other procurements.
- A second RFP for Project Oversight: Pursuant to Washington policy, the role of this consultant is to provide independent oversight to report their findings back to the State on matters pertaining to project planning and execution. Because of the potential for a conflict of interest, the vendor selected for this role should be precluded from bidding on the other procurements.
- A third RFP for specialized legal assistance: This consultant would supplement the Washington staff during the negotiation and contracting part of the procurement process.
- A fourth RFP for Round 1a BPR assistance: This procurement supplements the State team in accomplishing the goals for the five cross-process initiatives included in this round of business process redesign (please see Appendix C for a complete list). This vendor should bring a combination of subject matter knowledge and relevant methodology to complement the expertise provided by the State itself. This vendor should be allowed to compete for subsequent RFPs, so long as the State makes the work products publicly available to avoid the perception of unfair competitive advantage from possessing insider knowledge.
- A fifth RFP for professional services to assist in the redesign of the eight business processes involved in Round 1b BPR, also referred to as Innovate Processes: The eight business processes included in this round of business process redesign are listed in Appendix C. While the timing of this RFP is concurrent with the RFP for the RFP for System Integration/Implementation services, we recommend separate RFPs to encourage competition. Some firms might have capabilities relevant to both, in which case the State should allow them to compete in both. Other firms might have capabilities in one of the two areas, so separating the RFPs would promote more competition.
- A sixth RFP for ERP Application Software and Third Party Software, if needed: The rationale for this recommendation is as follows:
 - *Saves long-term costs:* A procurement with contracting for software separate from system implementation/integration services reduces margin stacking, the business practice whereby a prime contractor adds profit margin on top of the profit margin of a subcontractor. Also, with separate procurements and contracts, the software vendor controls their own licensing and pricing structure. The software vendor knows the competition in their space and will price more aggressively and competitively. In addition, the software vendor controls their business strategy (e.g., do they want to invest in this deal, how much risk are they willing to take) and can pass this along to the client. While a single RFP will save short-term procurement cost, separate RFPs will save long-term project costs, which is orders of magnitude more economic value.
 - *Enables more control by the State:* The State gets to pick the software they like best, and the system integration (SI) vendor they like best, instead of the software or SI vendor making this judgment and potentially constraining their options.
 - *Enables more creativity and innovation by the vendors:* In separate RFPs, the software vendor and SI vendor are individually responsible and accountable to tailor their offer in the manner they think is most advantageous to the client and their firm. They are empowered to individually

propose innovations and commitment to outcomes (for scope under their control), propose creative deal structures, and commit to future direction. This independence is crucial to get maximum flexibility and creativity.

- *Reduces potential conflict and confusion in contractual arrangements:* States understandably desire a single point of accountability for their ERP systems. However, we have found through multiple state ERP projects that states had greater success when they developed a direct relationship with the software publisher and a separate direct relationship with the SI vendor.
- A seventh RFP for System Integration/Implementation services, also including hardware and infrastructure management services (i.e. “hosting services”) and application management services, referred to as managed services: The State has already decided it desires a vendor to take significant responsibility for hosting and managed services. Again, because of the knowledge retained with continuity, it makes sense to also engage the same vendor who performed the implementation to work with the State in the managed services role.

Our recommendation for the procurement strategy for Scenarios 2 and 3 is the same, with the following differences.

- In Scenario 2, add an additional RFP for the eProcurement solution. With this procurement the State seeks a Best-of-Breed solution. The Best-of-Breed providers in this market bring all the elements of the solution, either directly or through partners. Hence, this RFP should combine software, implementation services, and managed services into a single RFP. The vendor selected for eProcurement should be allowed to compete on the RFP for the financial system. It is in the State’s interest to test the marketplace for economies by allowing the same vendor to compete.
- In Scenario 3, move the hosting and managed services scope from the RFP for SI services to the RFP for the ERP application software. In a SaaS ERP solution, the software, hosting, and managed services are so tightly coupled it makes no sense to try to decouple them.

The approximate timing of the RFPs for Scenario 1 is presented in the table below.

Purpose	Approximate Timing
RFP for Third Party Advisory (TPA) Services, potentially combined with Independent Verification and Validation (IV&V) services	July 2015
RFP for Project Oversight	July 2015
RFP for legal services	July 2015
RFP for Round 1a BPR assistance	July 2015
RFP for ERP Application Software and Third Party Software if needed	July 2016
RFP for System Integration/Implementation (SI) services, also including hardware and infrastructure management services (i.e. “hosting services”) and application management services, referred to as managed services	December 2016
RFP for professional services to assist in the redesign of the eight business processes involved in Round 1b BPR, also referred to as Innovate BPR	December 2016

The approximate timing of the RFPs for Scenario 2 is presented in the table below.

Purpose	Approximate Timing
RFP for Third Party Advisory (TPA) Services, potentially combined with Independent Verification and Validation (IV&V)	July 2015
RFP for Project Oversight	July 2015
RFP for legal services	July 2015
RFP for Round 1a BPR assistance	July 2015
RFP for the eProcurement solution	December 2015
RFP for professional services to assist in the redesign of the eight business processes involved in Round 1b BPR, also referred to as Innovate BPR	December 2016
RFP for ERP Application Software and Third Party Software if needed	July 2017
RFP for System Integration/Implementation (SI) services, also including hardware and infrastructure management services (i.e. "hosting services") and application management services, referred to as managed services	December 2017

The approximate timing of the RFPs for Scenario 3 is presented in the table below.

Purpose	Approximate Timing
RFP for Third Party Advisory (TPA) Services, potentially combined with Independent Verification and Validation (IV&V)	July 2015
RFP for Project Oversight	July 2015
RFP for legal services	July 2015
RFP for Round 1a BPR assistance	July 2015
RFP for the eProcurement solution	December 2015
RFP for professional services to assist in the redesign of the eight business processes involved in Round 1b BPR, also referred to as Innovate BPR	December 2016
RFP for SaaS ERP solution including the software, hosting, and managed services	July 2017
RFP for System Integration/Implementation (SI) services	December 2017

A. Appendix A: One Washington Scenarios

1. **Managed Services ERP:** All finance and procurement functionality will be provided from a single Managed Services ERP system, with the breakdown of State and vendor responsibility detailed in the attached set of assumptions which has been validated and confirmed by the State.
2. **Best-of-Breed eProcurement with Managed Services ERP Financials:** Procurement functionality will be provided from a Best-of-Breed eProcurement solution, with Financials functionality being supported by a Managed Services ERP.
3. **Best-of-Breed eProcurement with Software-as-a-Service (SaaS) ERP Financials:** Procurement functionality will be provided from a Best-of-Breed eProcurement solution, with Financials functionality being supported by a Software-as-a-Service (SaaS) ERP.

B. Appendix B: Business Processes In-Scope for One Washington

Finance	Procurement
<ul style="list-style-type: none"> ▪ Performance planning ▪ Budget development ▪ Fraud and abuse ▪ Internal controls ▪ Cross agency initiatives ▪ Accounting policy ▪ Innovative funding ▪ Boards and commissions ▪ Finance management ▪ Budget operations ▪ General ledger accounting ▪ Period end closing ▪ Project accounting ▪ Cost accounting ▪ Accounts Payable ▪ Accounts Receivable ▪ Asset management ▪ Grants management ▪ Treasury ▪ Finance analytics ▪ Finance statutory reporting 	<ul style="list-style-type: none"> ▪ Sourcing and category planning ▪ Category management ▪ Improvement and change strategy ▪ Monitor compliance ▪ User compliance ▪ Internal customer satisfaction ▪ Internal customer complaint ▪ Procurement organizational structure ▪ Vendor relationship strategy ▪ Vendor management ▪ Sourcing ▪ Request to purchase ▪ Purchase order processing ▪ Receipt of goods ▪ Invoice processing ▪ Procure to pay strategy ▪ Strategic sourcing ▪ Purchase Card management ▪ Contract management ▪ Inventory management / fulfillment ▪ Procurement reporting ▪ Procurement data management

C. Appendix C: Description of Business Process Redesign Rounds

Round 1a BPR: Cross Process Initiatives | *Upfront, high-leverage activities to redesign key enterprise-wide businesses process that are central to realizing the business value of One Washington.*

The five cross-process initiatives included in the upfront round BPR are described below. The timing of these activities has been incorporated into the Phasing and Timelines, staffing needs are addressed in the Staffing Strategy, and associated costs and benefits of these activities are reflected in the One Washington business case.

Activity	Description
Define “payee” master data	This activity would create standard data definitions for all classes of payees (whether in a master database or across multiple databases) such as vendors, employees, recipients, beneficiaries, fiduciaries, bondholders, other governments, and entities receiving revenue refunds. There are three steps in this activity. First, identify the sources and uses of payee data. Second, resolve policy issues such as data privacy, security, and access. Lastly, develop an agreed upon governance and management structure for payee master data.
Define “customer” master data	This activity would create standard data definitions for all classes of customers (whether in a master database or across multiple databases) such as taxpayers, other governments, and entities remitting revenue associated with fees, fines, licenses, sales, rents, and assessments. The steps in this process are the same as the payee data. First, identify the sources and uses of customer data. Second, resolve policy issues such as data privacy, security, and access. Lastly, develop an agreed upon governance and management structure for customer master data.
Define a uniform chart of accounts, to be activated after ERP software is selected	This includes the provision for mandatory coding block elements across the state, including the taxonomy and hierarchy for funds, organizations, expenditure accounts, revenue accounts, commodities, programs, and outcomes. This also includes the provision for optional (but consistent) coding block elements for agencies to include the taxonomy and hierarchy for projects and grants, and agency-based options for lower levels of the mandatory hierarchy (e.g., lower levels of detail that are useful to agencies but not mandated by the State).
Create a reporting strategy for in-scope business processes.	This activity involves three key steps to integrate data and analytics into business processes as discussed with stakeholders during the Strategy Labs. The first step is to identify the most important things to measure. Part of this initial step is to confirm that processes are compliant with relevant statutes and policies. Next, identify the sources of information (digital, manual, non-existent) – based on the source of information, related activities may be to establish a process for collecting relevant data, or to transition manually available data to a digitized format. Finally, confirm the use of data to identify issues related to the consumption and reporting of data that may stem from access, organizational hierarchy and scope of reporting. Once these three steps have been completed, the ongoing process for review and validation of reports needs to be defined and established.

Activity	Description
Implement a business process management capability	<p>The ultimate success of any business process redesign effort lies in the ability to ensure that improvements actually take hold. We recommend that Washington launch a business process management capability with three objectives:</p> <ol style="list-style-type: none"> 1. Define and implement a governance structure for all process changes 2. Create a system to monitor process changes and track their impact on performance 3. Develop a central repository for the newly defined processes

Round 1b BPR: Innovate Processes | *Subsequent high-leverage, system-agnostic redesign of key business processes that are also central to realizing the business value of One Washington.*

The eight business processes included in the subsequent round BPR, noted as *Innovate Processes*, are described below. The timing of these activities has been incorporated into the Phasing and Timelines, staffing needs are addressed in the Staffing Strategy, and associated costs and benefits of these activities are reflected in the One Washington business case. The redesign of these processes is software-agnostic.

Function	Process	Potential Improvement Opportunity
Finance	Accounts Payable	<ul style="list-style-type: none"> Balance the Optimization of Prompt Pay Discounts and Reduction in Late Payment Penalties in order to maximize interest on cash flow.
	Accounts Receivable	<ul style="list-style-type: none"> Improve collections process, particularly for agencies where collections is not a mission-critical activity (e.g., nursing or foster care overpayments, courts fines).
	Grants Management	<p><i>State as Grantee</i></p> <ul style="list-style-type: none"> Create an office or organizational capability for Federal Grants Management that provides central monitoring structure for Catalogue of Federal Domestic Assistance (CFDA) grant opportunities and provides guidelines for the full grant management lifecycle Implement an enterprise-wide policy that provides guidance for the matching of grant match requirements with state funds, in order to make decisions based on long term financial impact Maximize indirect cost recovery, especially for Federal grants pursuant to allowable cost recovery principles (i.e., Circular A-87) <p><i>State as Grantor</i></p> <ul style="list-style-type: none"> Create a Customer Service Center of Excellence to reduce the level of effort (and costs) required by potential grant applications or grantees
	Project Accounting	<ul style="list-style-type: none"> Launch Center of Excellence for Project Accounting Manage clearance patterns, for example: <ul style="list-style-type: none"> Dept. of Transportation – project accounting to facilitate daily billing for Federal Highway Administration Unemployment Insurance – monthly lag times to get reimbursed for administrative expenses

Function	Process	Potential Improvement Opportunity
Procurement	Strategic Sourcing	<ul style="list-style-type: none"> ▪ Leverage the state's buying power to secure better terms and prices from suppliers ▪ Identify a pilot agency or commodity to test various strategic sourcing tactics <ul style="list-style-type: none"> • Demand rationalization • Vendor aggregation • Specification rationalization • Use of sophisticated sourcing and negotiation techniques (e.g., reverse auction) • Use Total Cost of Ownership approach to vendor/product selection
	Internal Customer Satisfaction	<ul style="list-style-type: none"> ▪ Create formal channels of communication as a formal signal to create buy in for broader procurement transformation ▪ Implement tools designed to improve customer satisfaction, such as Service Level Agreements, methods for customer redress (e.g., refunds for customers who do not receive what they order), and formal complaint/monitoring capabilities
	Procure to Pay Strategy	<ul style="list-style-type: none"> ▪ Map Procure to Pay cycle across all involved agencies ▪ Introduce Procure to Pay concept to all business process owners ▪ Implement service-type concepts into the Procure to Pay cycle (Service Level Agreements, Redress Methods, Formal Complaint and Monitoring Capability, etc.)
	Vendor Relationship Management Strategy	<ul style="list-style-type: none"> ▪ Explore opportunities to pilot vendor partnership programs as a tool for building engagement in the broader initiative ▪ Develop risk-based vendor management strategy ▪ Launch specialized vendor management programs (e.g., minority-woman owned businesses, green businesses, veterans) including procurement preferences, educational/mentoring programs, and capacity building efforts.

Round 2 BPR: Software-Driven

Software-driven Business Process Redesign activities for all business process areas in scope, to be accomplished in conjunction with system implementation. The timing of these activities has been incorporated into the Phasing and Timelines, staffing needs are addressed in the Staffing Strategy, and associated costs and benefits of these activities are reflected in the One Washington business case. The redesign of these processes is software-driven.

D. Appendix D: Pro Forma Cash Flow

Extracted from the TCO is the following pro forma cash flow of funds to be provided by the TSF and/or State appropriation by fiscal year for Scenario 1 and Scenario 2.

Schedule of Potential Cash Flow Requirements from TSF and/or State appropriation by Fiscal Year: Scenario 1						
Purpose	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Planning and Procurement	\$2,885,300	\$4,941,300	-	-	-	-
Business Process Redesign	\$1,379,400	\$3,488,100	\$4,950,000	\$8,052,000	-	-
Implementation Team – State Members	-	-	\$6,613,750	\$8,548,750	\$7,221,250	\$730,938
Agency Pool of Hours	-	-	\$350,000	\$1,458,100	\$1,604,400	\$87,500
Facilities	\$216,000	\$396,000	\$2,659,000	\$2,556,000	\$2,238,000	\$222,000
Total	\$4,480,700	\$8,825,400	\$14,572,750	\$20,614,850	\$11,063,650	\$1,040,438

Note: It is common practice in the software industry to charge the full license cost at the time of acquisition, and also charge the first year of maintenance. The budget and pro forma cash flow depicts this practice. It is also a common practice for the timing of the software contract to coincide with the timing of the system implementation contract, thus synchronizing the initiation of the State's obligation to make payments to the software provider aligned with the start of the project with the system implementer.

Schedule of Potential Cash Flow Requirements from TSF and/or State appropriation by Fiscal Year: Scenario 2							
Purpose	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Plan and Procure	\$2,674,967	\$2,621,300	\$4,246,634	-	-	-	-
Business Process Redesign	\$1,379,400	\$3,488,100	-	\$4,950,000	\$8,052,000	-	-
Impl. Team – State Members	-	\$3,293,000	\$3,308,000	\$5,656,750	\$7,795,750	\$6,557,500	\$736,938
Agency Pool of Hours	-	\$312,500	\$312,500	\$350,000	\$1,458,100	\$1,604,400	\$87,500
Facilities	\$183,000	\$1,865,000	\$930,000	\$1,584,000	\$2,400,000	\$2,094,000	\$222,000
Total	\$4,273,367	\$11,579,900	\$8,797,134	\$12,540,750	\$19,705,850	\$10,255,900	\$1,046,438